STATE OF MONTANA

DEPARTMENT OF REVENUE

LIQUOR DIVISION

REPORT ON EXAMINATION

FISCAL YEAR ENDED JUNE 30, 1972

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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601

October 20, 1972

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of the Liquor Division of the State Department of Revenue for the fiscal year ended June 30, 1972.

The audit was conducted by the public accounting firm of Artz, Clark and Stevens, C.P.A.'s, of Great Falls, under a joint contract between the firm, the division, and our office. Pursuant to the contract provisions, the report has been directed to the Office of the Legislative Auditor as the firm's client.

The comments and recommendations contained in this report have been discussed with the administrator of the Liquor Division, members of the State Liquor Control Board, and other appropriate officials.

We wish to thank these officials and their staff for their cooperation and assistance.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett
Legislative Auditor

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

LIQUOR DIVISION

Liquor Control Board Members

Robert J. Pallo, Chairman	Libby
F.B. Welsh	Billings
Robin MacNab	Bozeman
George F. Steinbrenner	Missoula
Jack E. Wiley	Helena

Administrative Officials

Joseph T. Shea, Administrator

Thomas Mulholland, Assistant Administrator

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October 20, 1972

State of Montana
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

We have examined the Balance Sheet of the Liquor Division of the Department of Revenue as of June 30, 1972 and the related Statements of Changes in Fund Balance, Revenue, Expenditures Compared with Appropriations, and Expenditures for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The financial statements reflect expenditures of $35,405 which should properly have been classified as encumbrances of appropriations. This constitutes a violation of generally accepted accounting principles.

The Liquor Division adopted the accrual basis of accounting for all expenditures effective for the fiscal year ended June 30, 1972. This represents a change of accounting method in that agency financial statements in the past had been prepared on the cash basis of accounting for expenditures other than merchandise purchases and inbound freight charges. The effect of this change, which is dictated by generally accepted accounting principles, was to increase operating and capital expenditures by $62,225 more than would have been reported had the change not been made.

The statements of operations do not separately state net income from the liquor enterprise as is required by generally accepted accounting principles for governmental units. Such separate statement of net income is precluded by the accounting system which does not segregate general administration expenditures relating to the enterprise from those relating to regulation, enforcement and tax collecting activities.

In our opinion, subject to the exceptions noted in the preceding paragraphs, the aforementioned financial statements present fairly on an all fund basis, the financial position of the Liquor Division of the Department of Revenue as of June 30, 1972 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles for governmental units applied on a basis consistent with that of the preceding year.

Artz, Clark & Stevens

ARTZ, CLARK AND STEVENS
Certified Public Accountants

ACS:pls

COMMENTS

GENERAL

The Montana Liquor Control Board was established by the legislative assembly following the repeal of prohibition in 1933. The effect of the "State Liquor Control Act" and the "Montana Beer Act" was to establish a state liquor monopoly for the regulation of all liquor and alcoholic beverages manufactured, sold or dispensed in the state.

The administration of the state liquor and beer laws is charged to the board which is comprised of five members, no more than three of whom may be of the same political party. Board members are appointed by the governor for four-year terms, confirmed by the senate and may be removed for cause. The board is vested with broad powers including the authority to import and sell all types of liquor, establish prices and license liquor and beer retailers, beer wholesalers and brewers.

The liquor monopoly is the only business enterprise operated by our state government and as such has become the second largest contributor of revenue to the state's general fund. Agency revenue for fiscal 1972 was as follows:

	Amount	Percent
Liquor Gross Profit	$ 9,706,867	64%
State Excise Taxes	4,719,763	31%
Beer Licenses and Taxes	2,253,236	15%
County License Taxes	1,179,929	8%
Liquor License Fees	463,619	3%
Other Income	37,904	--
Subtotal	18,361,318	121%
Expenditures	3,145,383	21%
Net Revenue	$15,215,935	100%

More than $13 million was apportioned to the state general fund during the 1971-1972 fiscal year while nearly $1.2 million was distributed to local governmental units.

AUDIT SCOPE AND OBJECTIVES

The primary purpose of our examination of the liquor monoply was to formulate and express an opinion on the agency's financial statements for the fiscal year ended June 30, 1972. In addition to the financial aspects, however, the terms of the engagement provided that we were to evaluate the agency's compliance with applicable statutes and with the recommendations contained in the Legislative Auditor's "Report on Examination" of the Montana Liquor Control Board for the fiscal year ended June 30, 1969.

We believe that, although the liquor monoply has established a praiseworthy record of revenue contributions to state and local government over the years, improvements in the efficiency and effectiveness of the agency can be made, and our comments and recommendations following, are guided by that objective.

ORGANIZATIONAL AND ADMINISTRATIVE STRUCTURE

Personnel Management

The Legislative Auditor's "Report on Examination" issued in 1970, included recommendations for the improvement of the organizational and administrative structure of the state liquor monopoly. The contention, in which we concur, was that the liquor monopoly should be organized and operated in "the most businesslike manner possible".

We believe that management principles and procedures applicable to industry are equally applicable to the Montana liquor monopoly. We found, however, that management principles and procedures are not always adhered to particularly in the area of personnel management.

Political patronage plays a major role in the selection of the liquor monopoly employees. When the political party of the governor changes,

so does a large percentage of the personnel of the liquor enterprise. To illustrate:

Board members are appointed by the governor.

The administrator is appointed by the governor, although statute grants this appointive power to the board.

Liquor inspector appointments are controlled by the state central committee of the governor's political party.

Store vendor and clerk positions are controlled by the county central committees of the governor's political party.

We believe the degree of political influence over employee positions has hindered and continues to hinder effective management of the liquor monopoly.

The legislature has indicated its distrust of the system by setting maximum salary limits for all agency personnel. This is the only such instance among state agencies of substantial size. The board itself has indicated its distrust of the system by requiring store vendors to pay for merchandise shrinkages and by retaining some of the authority which ordinarily would be delegated to its staff.

In line with the foregoing discussion, the legislative auditor recommended that the board reorganize into a more functional and realistic structure providing a formal system of supervision and control outside of the administrator; that the board establish written policies and procedures defining individual employee duties and responsibilities; that the board establish written performance standards and periodically evaluate employee performance; and that the board expand the administrator's authority to include the hiring and discharging of all agency personnel based upon ability and performance. We find that none of these recommendations have been implemented and we believe that their implementation

can only be accomplished by reducing or eliminating the political influence over employee positions.

We see no way to effectively manage when management does not control its personnel. The person responsible for the performance of a particular function must have the authority to guide and control that function and that authority must include authority over the personnel under his direction. The Montana Liquor Control Board has the authority over its personnel but this authority has somehow been delegated to the political party in control of the governorship rather than to its management. The administrator does not have the authority to hire and fire personnel yet he is responsible for their performance.

Executive Reorganization

The Executive Reorganization laws enacted by the 1971 legislative assembly placed the board within the Department of Revenue for administrative purposes only as prescribed by Section 82-108 of the act except that Section 82A-108(2)(d) does not apply. Section 82-108 reads as follows:

1. The agency transferred for administrative purposes only shall:
    a. Exercise its quasi-judicial licensing and policy making function independently of the department without approval and control of the department.
    b. Submit its budgetary requests through the department.
    c. Submit required reports through the department.
2. The department to which the agency is transferred shall:
    a. Direct and supervise budgeting, record keeping and reporting and related administrative and clerical functions of the agency.

b. Include the agency's budget requests in the department's budget.

c. Collect all revenues for the agency and deposit them in proper accounts.

d. Provide staff for the agency unless otherwise indicated in the act.

e. Print and disseminate notices, rules or orders adopted, amended or repealed by the agency.

3. The department head shall:

a. Represent the agency in communications with the Governor.

b. Allocate office space as necessary to agency subject to approval of the Department of Administration.

The exception of Section 82A-108(2)(d) leaves the board the authority to hire its own personnel.

The Executive Reorganization Order implementing the Department of Revenue specifies that, although Section 82A-108 of the act transfers the administrative functions of the Liquor Division to the Department of Revenue, the administrative functions should be delegated back to the Liquor Division by the Department of Revenue in the interest of efficiency and effectiveness of operation. In other words, the administrative functions remain with the Liquor Division rather than being transferred to the Department of Revenue.

We believe that, for the objectives of Executive Reorganization to be achieved as they relate to the liquor enterprise, the Department of Revenue should be vested with the authority and responsibility to supervise and direct all administrative functions and to provide all staff for the agency, including the administrator and the assistant

administrator. If this were accomplished the position of administrator would become a professional position rather than a political appointment and impetus would be provided to remove all agency staff from the political realm.

RECOMMENDATION

We recommend that:

1. The Executive Reorganization Order implementing the Department of Revenue be amended to remove the requirement that the Department of Revenue delegate the administrative functions of the Liquor Division back to the Liquor Division.
2. The board immediately delegate its authority to hire and discharge all agency personnel, including the administrator and assistant administrator, to the Department of Revenue.
3. Legislation be sought which would grant the Department of Revenue statutory authority to hire and discharge all agency personnel including the administrator and assistant administrator.

Personnel Policies

Once the board has transferred its authority and responsibility concerning personnel the Department of Revenue should take action to remove all employee positions from political influence. This might best be accomplished by implementing the statewide merit system but at a minimum steps must be taken to assure that all employees are hired and

discharged on the basis of their ability and performance. We believe implementation of the following recommendations would be steps in the proper direction.

RECOMMENDATION

We recommend that:

1. Action be initiated to reorganize the liquor operations into a more functional and realistic structure establishing a formal system of supervision and control.
2. Written policies and procedures defining individual responsibility and authority be established.
3. Written performance standards by which employees are periodically evaluated be established.

Statutory Limitation Salaries

As previously mentioned, Section 4-106, Revised Codes of Montana, 1947, limits the maximum salaries of all liquor division employees. Implementation of our recommendations concerning the organizational and administrative structure of the liquor monopoly should eliminate the need for statutory limitations on employee salaries. We believe that such limitations prohibit the acquisition of the best qualified personnel. We quote the following recommendation from the legislative audit report.

RECOMMENDATION

"We recommend that, if an effective system for employment of personnel is established, the statutory limitations on board employees' salaries be repealed.

Vendors' Payment for Merchandise Shortages

The board has an existing policy that merchandise shortages in state liquor stores must be paid for by the store vendor unless the board members specifically waive the payment. In practice we have found that

vendors will require other store personnel to contribute toward the shortages. One instance presently exists where a clerk in one of the state stores has complained to the Department of Labor about being charged prorata for store shortages.

We believe the removal of agency employees from political influence and the implementation of sound personnel management policies and procedures will eliminate the need for the requirement that store vendors pay for merchandise shortages. The vendors of commission stores, whom we consider to be independent contractors rather than employees, should however, continue to pay for shortages because of the insufficient degree of control.

RECOMMENDATION

We recommend that, IF an effective system for employment of personnel is established, the board rescind its policy requiring store vendors to pay for merchandise shortages except as it relates to commission store vendors.

General Comment

Unless the foregoing recommendations are implemented, we believe that our comments and recommendations following will serve little useful purpose inasmuch as the present administrative structure will not permit full implementation of those recommendations.

STATE LIQUOR STORE OPERATIONS

Store Sales and Perpetual Inventory Records

The legislative auditor's report contained the following recommendations in this area.

"We recommend that the board:

1. Discontinue use of daily sales reports, spread sheets, and perpetual inventory records currently in use in state liquor stores.
2. Adopt the retail inventory method of valuing merchandise in state stores and apply the 'forced sales' technique of determining merchandise sales."

We found that, although attempts were made, these recommendations have not been implemented. We concur with the legislative auditors that the system in use is unduly time consuming and should be abandoned.

The system operates as follows:

1. A sales ticket is prepared for each sale detailing the quantity, stock number, selling price and amount of each item sold.
2. Unit sales of each stock item are posted to a spread sheet from the sales tickets.
3. Quantity sales of each stock item are totaled at the end of the day and transferred from the spread sheet to the daily sales report.

4. The daily sales report is completed by multiplying the units sold by the established selling price for each stock item and totaling to yield the cash accountability for the day.

5. The over or short position for the day is determined by comparing the cash received to the total of the daily sales report.

6. The unit sales information for each stock item is posted to a perpetual inventory record which enables the store vendor to know at all times the quantity of each stock item which should be in the store. (Some stores have abandoned perpetual inventory records.)

7. The daily sales report is then forwarded to the central office in Helena where all the unit sales information is keypunched, put through the computer and the resulting output is compared to the daily sales report manually to verify its accuracy.

From the foregoing description of the system it should be apparent that a good deal of time is involved at the store level in preparing the daily sales reports. The legislative auditors estimated time usage at 40 man-hours per week in the large Class "A" stores, 20 man-hours per week in the Class "B" stores and 16 man-hours per week in the Class "C" stores.

Central office time spent in handling and processing the sales reports is also substantial. In addition to keypunch and computer time central office personnel must print the sales report forms, package and mail the forms to the 147 stores throughout the state monthly, handle the completed forms as they are received in the mail, compare cash receipts to total

sales and correct numerous errors which appear on the reports.

Board personnel indicated the following reasons for failing to implement the recommendations of the legislative auditors.

1. Month-to-date sales information would be lost inasmuch as unit sales would be determined only at month-end when the central office had received physical inventory counts from each store. This would complicate matters in that a substantial number of stores have their stock replenished automatically by the central office on a weekly or bi-weekly basis and replenishment is primarily based on current sales and perpetual inventory information. Further, month-do-date sales information is sometimes used to assist personnel in determining purchase order quantities.

2. Keypunch time required at the central office to record month-end physical inventories for each store as well as computer time required to compute sales for the month would create a bottleneck at the beginning of each month which would disturb other routine operations.

3. Store vendor resistance was substantial due to the fact that vendors are required to pay for merchandise shortages and the vendors want some means of satisfying themselves that the shortages they are charged for are correct.

We maintain that a cost saving of more than $100,000 per year is great enough to justify making the required revisions in other operating procedures. First, we do not believe that the loss of month-to-date sales information would create any major problems. Store vendors can place their own orders to replenish stock with relative ease, quite

possibly resulting in better store inventory balance. Also, the month-to-date sales information used in determining purchase order quantities is minimal, generally being limited to the movement of "hot" items such as the nationally advertised sweet wines recently so popular. Second, if the daily sales reports were eliminated it is a distinct possibility that the need for the "in-house" computer installation would not justify the cost and that the necessary functions could be accomplished at the central data processing unit of the State Department of Administration, possibly resulting in additional cost savings. Third, we see no valid business purpose to requiring that store vendors pay for merchandise shortages. This practice is almost unheard of in private enterprise where management has full control of personnel.

We believe that the board's requirement that store vendors pay for merchandise shortages is responsible for the board's failure to abandon the use of daily sales reports, spread sheets and perpetual inventory records in the state liquor stores. We believe the board instituted this procedure to control shortages based on the fact that store vendors are political appointees and are not under the full control of management. We maintain that control over store shortages would be adequate without requiring vendor payment for shortages if store employees were hired and discharged on the basis of their ability and performance by the persons responsible for their performance.

We are convinced that utilization of the "forced sale" technique of determining merchandise sales would not weaken store inventory control in any way. Instead, it would eliminate a major duplication of effort by the individual stores and the central office in maintaining perpetual inventory records and the possibility that store vendors could submit

inventory counts based on what their perpetual inventory records indicate should be in stock when the actual inventory count is less, would be reduced. Unit and case sales information would still be available on a monthly and year-to-date basis.

RECOMMENDATION

We quote the legislative auditors in recommending that the board:

1. "Discontinue use of daily sales reports, spread sheets, and perpetual inventory records currently in use in state liquor stores."

2. "Adopt the retail inventory method of valuing merchandise in state stores and apply the 'forced sale' technique of determining merchandise sales."

Number, Location and Classification of State Liquor Stores

Statute requires that at least one state liquor store be maintained in each county seat and permits additional stores as the board may deem advisable. Statute also designates the stores according to sales volume into three classes.

Class	Annual Sales Volume	Number in Operation At July 1, 1971
"A"	Over $450,000	17
"B"	$140,000 to $450,000	30
"C"	Under $140,000	102

The board has further designated the Class "C" stores into sub-classifications.

Class	Annual Sales Volume	Number In Operation
"C-1"	$75,000 to $140,000	24
"C-2"	$40,000 to $75,000	35

Class	Annual Sales Volume	Number In Operation
"C-3"	$30,000 to $40,000	10
"C-4"	$25,000 to $30,000	12
Commission Stores	Under $24,000	21

One store included in the "C-4" classification was closed in July, 1972 and another does not meet the $25,000 minimum sales volume but is located in a county seat where a commission store operation has not been possible. The commission store classification includes the Malmstrom Air Force Base liquor store which has sales in excess of $200,000 per year on which the board pays the federal non-appropriated fund a commission.

Our review of the financial data on individual stores disclosed two areas we believe are worthy of careful review with the objective of creating cost savings or greater profitability without a serious reduction in the level of service to the public.

1. We believe a duplication of overhead and capital investment exists when stores are located too near one another. We found that nine stores are operated within fifteen miles of another store none of which are required to be maintained by law.

   We do not believe that the closure of these stores would result in undue hardship to the public but that their closure would result in a minimum savings in salary costs of $20,000 per year and would also release a minimum of $30,000 to the state's general fund which is presently invested in inventory for these stores.

   We are not recommending the closure of these specific stores, but only pointing out that opportunities do exist to improve operating results by maintaining a minimum number of stores at optimum locations.

2. As noted in the foregoing tabulation of store classifications,

the board classifies stores with gross sales volume of less than $25,000 as "commission" stores. These stores are generally operated in conjunction with a local business establishment and the vendor furnishes the space and his services in exchange for a commission of ten percent of gross sales. The board furnishes the inventory and the vendor must account for the merchandise in the same manner as do the larger stores. We believe that the board could maintain its existing service level to the public and increase its revenue contribution to state government by operating more of its stores on a commission basis. If the board's participation in costs of operating stores with less than $75,000 volume had been limited to a ten percent commission on sales for the past fiscal year, the cost savings in salaries and store rent alone would have amounted to approximately $90,000.

We believe that political patronage has contributed, at least in part, to the fact that state liquor stores sometime exist so near one another as to create a duplication of overhead. The state liquor administrator informed us that he had attempted closure of some marginal stores which attempts were thwarted by political figures from the localities involved. We do not believe any store should exist when its functions could be effectively combined with a nearby store regardless of the political considerations.

RECOMMENDATION

We recommend that the board:

1. Make a thorough review of its existing store locations with the objective of closing those stores whose functions could be effectively combined with nearby stores.

2. Reevaluate its policy of classifying only those stores with less than $25,C00 annual sales volume as "commission" stores.

Store Personnel Requirements

The legislative auditor's report included the following recommendation on store personnel requirements.

> "We recommend that the board establish a policy for determining the personnel requirements of state liquor stores that includes consideration of the number of cases and units to be handled.

We found that no such policy is in effect. Substantial disparities still exist in the relationship of store sales to sales personnel. The following table illustrates the disparities noted.

Class "A" Store	Approximate Sales 1971-72	Approximate Personnel Cost 1971-72	Self-Serv. Store
A	$1,950,000	$ 54,000	Yes
B	850,000	57,000	Yes
C	1,750,000	54,000	Yes
D	1,100,000	53,000	Yes
E	1,150,000	33,000	No
F	600,000	33,000	No
D	1,100,000	53,000	Yes
E	1,150,000	33,000	No
Class "B" Store			
A	200,000	8,500	No
B	200,000	14,000	No
C	400,000	13,300	No
D	250,000	13,800	No

Class "B" Store	Approximate Sales 1971-72	Approximate Personnel Cost 1971-72	Self-Serv. Store
E	$ 400,000	$14,500	No
F	250,000	15,000	No

We realize that dollar volume is not the only criteria in determining store personnel requirements but we believe the analysis does point out an area where effective management could create substantial cost savings. The following tabulation denotes the "maximum" cost savings possible based on the assumption that all Class "A" and "B" stores could operate on the same percentage of personnel costs to gross sales as does the store having the lowest personnel costs to gross sales relationship within the respective class.

	17 Class "A" Stores	30 Class "B" Stores
Gross Sales - All Stores	$20,300,000	$ 8,700,000
Lowest Personnel Costs/Gross Sales Ratio in Class	2.76%	3.30%
Total Personnel Costs if all stores Operated on Lowest Ratio	$ 560,280	$ 287,100
Actual Personnel Costs	784,860	410,220
"Maximum" Cost Savings	$ 224,580	$ 123,120

It seems that success in reducing existing personnel costs/gross sales ratios would have considerable influence on legislative deliberations regarding maximum salary limitations for board personnel. If efforts were successful in saving 50% of the above "maximum" cost savings, board expenditures would be reduced by nearly $175,000.

Again, we believe that the foregoing disparities in personnel costs among stores can be attributed, at least in part, to the system of political patronage which permeates board activities.

RECOMMENDATION

We recommend that the board establish standards relating the number and total cost of store personnel to the activity levels of the various stores.

STORE AUDIT FUNCTION

The purpose of the store audit function should be to assure that store inventories and cash receipts are properly controlled and accounted for. Our review disclosed poor documentation of store auditors' findings and lack of followup on store auditors' reports. We believe that coordination and supervision of the store audit function are weak and should be improved by:

1. Establishing written procedures for store auditors to perform.
2. Training the store auditors to perform the necessary procedures.
3. Establishing a uniform system for reporting.
4. Establishing uniform review and followup procedures to be observed at the central office.

RECOMMENDATION

We recommend that the store audit function be formalized to include written procedures for the auditors to perform, procedural training for the auditors and a uniform system of reporting, review and followup.

INVENTORY MANAGEMENT AND CONTROL

An effective inventory management and control program which minimizes the amount of capital invested in inventory while maintaining stock levels and selection at satisfactory customer service levels is a key profitability factor in any merchandising operation. The board received heavy criticism of its inventory management system from the legislative auditors along with positive recommendations for improvement yet little improvement was noted in the three year time span between audits.

Merchandise Listings

The legislative auditors made the following recommendations with regard to procedures for determining which liquors and wines are to be stocked and sold by the board.

RECOMMENDATION

"We recommend that the board:

1. Establish an acceptable sales quota for each type of liquor listed.
2. Make an immediate determination of the liquors presently listed that do not meet the above mentioned sales quotas.
3. Delist the liquors presently in the inventory that do not meet the established quotas and the stock on hand either be sold or returned to the distillers.
4. Establish written criteria for evaluating the merits of liquors proposed for listing in the future.
5. Adopt a formal system of evaluation of proposed listings including documentation of the information needed to reach a sound decision based upon the established criteria.
6. Document the reasons for listing or not listing each of the proposed liquors.

7. Test the salability of new listings on a trial basis in either Class A or a combination of Class A, B and C stores."

Some of these recommendations have been implemented or partially implemented. Listing procedures, which we observed at a recent listing meeting, are substantially as follows:

1. The manufacturer's representative submits on a pre-printed form a request for listing which includes information as to size, proof, age and cost to the board.
2. The agency staff computes the price at which the product would sell based on established formulas.
3. The board holds semiannual listing meetings at which sales representatives are allowed to appear before the board and "pitch" their products and to answer questions of board members.
4. The board does allow sales representatives to "pitch" their products at regular board meetings but acts only on listing requests for "special" items in the interim between regular listing meetings.
5. The board members discuss the requests and decide which items should be listed and which items should be rejected.
6. The board sets the initial order quantity on those items which are accepted for listing.

We found no written criteria for evaluating listing requests nor did we find any documentation of formal evaluation. We observed that the in-state newspaper advertising plans for a product did have bearing on the board's listing decisions but a follow-up system to determine that advertising plans are followed does not exist nor does any documentation

that there was, in fact, a plan or promise. We observed that the board did not place much, if any, reliance on information as to the number of brands already listed in the same category although the price at which the product would sell was a consideration. Little apparent reliance was placed on the sales records of the various products in other control states although representatives generally mentioned the sales histories.

The board did adopt minimum monthly sales quotas for its listings at its June, 1972 meeting. Quotas adopted vary according to selling price from two cases per month for the most expensive Scotch, liqueur and wine in the smallest and largest packages to thirty five cases per month for the least expensive vodka, brandy and wine in fifth and quart sizes. Listings are given a year to meet their quotas. To date, the quota system has not been put into effect and delistings based on performance in relation to quotas have not been accomplished.

The board has recently put a program into effect whereby the suppliers of newly listed products are required to sign a "listing memorandum" which provides that if the new listing does not meet its sales quota within one year and if the board decides that the product will be delisted and the selling price reduced to the board's cost plus the state excise tax and county license tax, then the supplier will absorb the price reduction on the amount of stock sold at the reduced price. This program should help the board if it lists products which do not perform and must be delisted. We hope, however, that the board will not view the "listing memorandum" as reducing the need for careful evaluation of listing requests.

An analysis of the board's regular listings at July 31, 1972 revealed

the following product breakdown. These listings do not include items which have been placed on close-out or special items.

Type	Number of Brands	Total Listings All Sizes
Bonded, blended and bourbon whiskey	91	167
Canadian whiskey	20	38
Scotch whiskey (includes two Irish whiskeys)	40	58
Gin	24	42
Brandy	32	44
Rum	16	20
Liqueur	N/A	48
Wine	N/A	288
Cordials	N/A	25
Vodka	29	57
Tequila	4	4
Ale	1	1
Total Regular Listings		792

In addition to the foregoing regular listings the June 30, 1972 merchandise inventory included approximately 330 close-out and special items.

In reviewing the relationship of the number of liquors listed to sales, we found that 287 listings accounted for 90% of the June, 1972 sales volume. These 287 listings represent approximately 36% of the total regular listings and approximately 26% of all the stock items with inventory balances at June 30, 1972. This indicates to us that among

the remaining 505 regular listings there are certainly some that should be delisted. If only the top 700 items in June, 1972 sales volume were listed the inventory cost at June 30, 1972 would have been approximately $200,000 less.

Using calendar year 1971 Montana case sales statistics published by the National Alcoholic Beverage Control Association we developed the following analysis.

Class	Total Number of Brands in Class	Number of Brands Accounting for Major Percentage of Sales
Bond bourbon	14	4 Brands - 74%
Straight bourbon	77	10 Brands - 76%
Spirit blend	25	6 Brands - 82%
Scotch bottled in U.S.	23	6 Brands - 78%
Canadian bottled in U.S.	17	4 Brands - 84%
Gin - Domestic	22	5 Brands - 77%
Gin - Imported	4	1 Brand - 71%
Vodka - 80 proof	21	6 Brands - 85%
Grape brandy	15	2 Brands - 84%
Sloe Gin	4	1 Brand - 92%

This also indicates to us that the board has an excessive number of listings.

We believe that the lack of adequate listing procedures is the cause of the excessive number of listings and has resulted in excess investment in inventory along with operational problems associated with buying, storing, shipping and selling merchandise.

We agree with the legislative auditors that a formal evaluation system should be adopted which documents the information utilized in making listing decisions. We believe, however, that the operational details of listing should be handled by the administrator and staff within policy guidelines established by the board rather than the board itself determining which items should be listed and the amounts of the initial order. The board's policy should establish the criteria to be used in evaluating listing requests, set maximum limits for listings within given merchandise classifications and establish periodic dates for the board to evaluate the agency's product mix. We see no reason for the five board members to become involved in such operational decisions.

Distillers and wineries should be required to include with their listing requests information which will be of assistance to the staff in evaluating the requests. This information should include:

1. The control states in which the product is presently listed.
2. Sales history (to be verified during evaluation).
3. In-state advertising program planned.
4. Other data as required.

RECOMMENDATION

We recommend that the board:

1. Establish a listing policy setting forth the criteria to be used in evaluating listing requests, establishing maximum limits for listings within appropriate merchandise classifications, and providing for periodic review of product mix by the board.
2. Delegate the listing function to the administrator and agency staff to be performed within the guidelines established by the board.

Delisting Merchandise Items

The legislative auditors made the following recommendation for delisting:

> "We recommend that the board members establish criteria for delisting and that the board's staff be authorized to evaluate each item listed every six months and make appropriate delistings based upon the established sales criteria."

As previously discussed, the board has adopted sales quotas but has not yet put the quotas into effect. We analyzed the effect of applying the adopted sales quotas to the fifth and quart size packages included in the June 30, 1972 merchandise inventory and found that if those items not meeting the quotas were delisted, the result would be to reduce the total inventory cost by approximately $200,000. A substantially greater reduction would undoubtedly result if all packages were subjected to the quotas.

The board has not authorized its staff to delist products. Again, we see no reason for the board to be involved in delisting procedures other than setting the policy.

RECOMMENDATION

We recommend that the board put its adopted sales quotas into effect immediately and authorize its staff to make appropriate delistings based on those quotas.

Merchandise Purchase Practices

The legislative audit report pointed out weaknesses in the board's purchasing practices, such as the fact that purchase needs were evaluated only once each month, that only the warehouse inventory rather than the

combined warehouse and store inventories was considered in determining purchase needs, that fast-moving items were sometimes not ordered because the supplier did not solicit an order at a monthly board meeting, that distiller representatives might be influencing the quantity of the orders placed by associating with the board's purchasing and distribution agents, and that merchandise was sometimes purchased when a more than adequate supply was already on hand. Recommendations made were as follows:

1. "Have all purchase orders signed by administrator or assistant administrator."
2. "Make all changes to purchase orders prior to administrator's approval."
3. "Evaluate merchandise purchase needs on a continuing basis."
4. "Consider merchandise in stores in determining quantity of merchandise purchases."
5. "Base merchandise purchases on needs as opposed to distiller representatives' attendance to board meetings."
6. "Inform distiller representatives and board employees that representatives' contracts at the board are limited to the board members and administrator."
7. "Eliminate purchase of merchandise for which many months' supply is already in inventory."

We found that the recommendations for signing purchase orders and purchase order changes to be made before signing had been implemented. Purchase needs continue to be determined once each month except for special determinations on fast moving items. Store inventories are not considered in the computer program for determining purchase needs but

are noted in memorandum form on the computer printout for warehouse requirements. Our review disclosed no apparent influence of distiller representatives' attendance at board meetings or associations with board employees on purchasing nor did we note instances where orders were placed for merchandise when inventories were already excessive.

We have recommended elsewhere in this report that merchandise sales by stock item be determined only once each month by application of the "forced sale" technique. If this recommendation is implemented, month-to-date sales will be indeterminable and any determination of purchase needs other than at the beginning of each month will have to be based on probability rather than actual figures where sales and store inventories are concerned.

The basic problems of inventory management which come to light in this area are overstocking of some items and inadequate stocking of others. We found that the inventories of 75 items ranking between 1 and 700 in sales volume for June, 1972 were in excess of four months' sales requirements and that the cost of the excess inventories approximated $220,000. This was a partial test in that we only considered those items which were obviously overstocked. We did not consider those items which we knew were purchased in excess of immediate needs for good reason, e.g., direct imports. We also determined that for the month of March, 1972 the warehouse was unable to ship 15% of the items requested by the stores because the warehouse stock was depleted. This month, however, may not be entirely representative in that some shipping problems were encountered.

A number of problems are encountered in arriving at proper purchase order quantities and timing the orders. Factors that have a bearing are:

1. Lead time required for shipments to arrive.

2. Economic order quantities to save freight costs.

3. Pooling of shipments from various suppliers from freight economy.

We believe that for maximum inventory management, a much more complex computer program is required than the one presently in use. Therefore, we are not making any recommendations in this area based on the possibility that the board's "in-house" computer installation will no longer be economically justified should the board discontinue use of the daily sales reports discussed elsewhere in this report.

Excessive Inventory

The board has been advised that its investment in merchandise inventory is significantly greater than is required. The legislative auditors estimated the excess to amount to more than $800,000 in September, 1969. A study made by International Business Machines (IBM) in 1970 indicated that the implementation of its program known as "Inventory Management Program and Control Techniques" (IMPACT) could reduce the board's investment in warehouse inventory alone by approximately $566,000. We believe that the board could reduce its total investment in inventory by more than $500,000 by implementing listing and delisting procedures based on appropriate criteria and by exercising a greater degree of care in its purchasing and distribution procedures. Greater reductions could be attained by adopting an improved and expanded data processing program for inventory management.

LIQUOR WITHDRAWN FROM WAREHOUSE INVENTORY

The legislative auditors determined that board members had been receiving substantial quantities of liquor from the warehouse stock

prior to December 1969 through the use of credit applications and the agency was being reimbursed for the cost of this liquor by the various suppliers of the liquor. We found no evidence of irregular or improper usage of credit applications in our examination nor did we find evidence that board members were receiving liquor from the warehouse stock.

AGENCY COMPUTER INSTALLATION

The board presently leases IBM electronic data processing equipment at a cost of more than $41,000 per year. Two studies of the board's computer operations have been completed in the past three years. One study was made by IBM personnel to evaluate the feasibility of implementing IBM's "Inventory Management Program and Control Techniques" (IMPACT) program. The other study was conducted by the Management Systems Unit of the Department of Administration. None of the conclusions reached in either study have been implemented. The board and the Department of Administration seem to have reached an impasse with the board desiring to acquire a different "in-house" installation with greater capability while the Department of Administration recommends utilization of its data processing unit.

We have recommended previously in this report that the board discontinue use of the daily sales reports and perpetual inventory records in its stores. If that recommendation is implemented the day-to-day volume of work in the data processing department will be materially reduced. Previous studies have not considered this factor and we believe it would be appropriate to do so.

Any change in the board's data processing operations should include an improved and expanded inventory management system which will enable the board to maintain its inventory at an economic level and still provide satisfactory service to the public.

During the course of our examination the administrator received a letter from the Department of Administration encouraging the board's use

of the central data processing unit possibly through the placement of a remote terminal at the board's office.

We have been informed that a systems analyst has recently been employed by the Department of Revenue. We believe it would be in the board's best interests to have its data processing needs reevaluated by this systems analyst on the basis that the use of the daily sales reports will be discontinued. If it is determined that use of the Department of Administration computer installation can adequately and economically meet the board's needs then the board's "in-house" data processing operations should be discontinued and its functions transferred.

RECOMMENDATION

We recommend that the board have its data processing needs re-evaluated by the Department of Revenue systems analyst and that the discontinuance of the use of the daily sales reports in state liquor stores and an improved and expanded inventory management program be considered in this reevaluation.

LAW AND REGULATION ENFORCEMENT

Inspectors - General

Section 4-225, Revised Codes of Montana, 1947 states, "the board may appoint one or more inspectors or prosecuting officers who, under its direction, shall perform such duties as it may require and who shall be paid such salaries, fees, and expenses as the said board may fix."

The existing program of enforcement of the liquor laws divides the state into nine areas, each of which has a liquor inspector. Duties and responsibilities of the inspectors include investigation of new license applications and applications for transfer of licenses, detection and investigation of violations of liquor laws and regulations, and inspections of retail beer and liquor premises for compliance with health and sanitary standards."

Our review of the inspection activities revealed a number of questionable practices.

Inspectors' Activities

On many of the inspectors' reports examined, when the inspector stayed at his headquarters to inspect local establishments or to do office work, there was no indication on his report of what he did other than "local calls" or "office work". Thus, in many instances, there was no indication of the licensee visited, amount of time spent with the licensee or findings of the inspection.

In March, 1972 one inspector spent 9 of 24 workdays in his office or at his home base, and 9 of 22 days in May, 1972. In August of 1971 another inspector spent 20 of 26 days at his headquarters, in March, 1972

17 of 23 days at his headquarters, in May 1972 he spent 14 of 23 days in his office and 2 of the out-of-office days were used to pick up his state vehicle. For the past fiscal year, reports indicate one inspector spent 177 days at his office or headquarters, out of a possible 248 days worked, or approximately 71% of his time was spent at his headquarters. The town in which this particular inspector is headquartered has a total of five licensees. Another inspector spent 102 days out of a possible 248 days at his office or headquarters or approximately 41% of his time. This particular inspector is stationed in a town which also has 5 licensees. Another inspector spent 35% of his time at his headquarters or at his office. When one particular inspector is not busy, he works in one of the state liquor stores as an extra clerk or as a replacement for the vendor. During the past fiscal year, he spent approximately 25% of his time doing this. It would appear from the foregoing statistics that nine (9) inspectors are not needed and that not all of the inspectors are working full time.

Inspectors' Daily Report

During our review of the Inspectors' Daily reports we found that most of the reports submitted were incomplete. Many of the reports did not have mileage traveled properly shown and the majority of the reports did not show the license number of the establishment visited. Some reports were not signed. On most of them it was impossible to determine the amount of time the inspector spent with each licensee. We found no uniformity in the way the reports were completed. With the exception of inspectors' daily reports, inspection reports, and an occasional

letter or memo, there is no other record of the activities of the inspectors or of the findings of their inspections.

The liquor board employs nine inspectors, each assigned to a specific part of the state. One of the inspectors also holds the position of Bureau Chief - Licensing and Enforcement Department. During our examination we were unable to locate any inspectors' daily reports for this individual except for those reports covering a two-week period in late 1971. Since this individual prepared no daily reports it was impossible to determine which licensees he has visited in the past fiscal year, and no accountability exists as to how he spent his time.

There are no direct controls over the inspectors' activities. Daily reports are examined and checked against expense reports for correctness, but no other means of checking inspectors' activities exist.

A properly completed inspectors' report would take no longer than ½ hour to complete. This report would then become useful as a check of frequency of licensees visited, as well as providing a record of the inspector's activities. We feel that the inspectors' daily report should be properly and fully completed by each inspector for each day of duty. The Bureau Chief should not be exempted from filling out daily reports, since there is no other check on his activities.

Inspection Reports

When an application for a new liquor license or for a license transfer is received by the board, an inspector is notified to investigate such application. The inspector then fills out an inspectors' report which is turned in to the board and used as a basis for deciding

whether a license is to be issued or transferred. When an inspector makes a routine inspection of a licensee, no report is filed. There is no checklist or format of what an inspector is to look for or check when making a routine inspection. It has become board policy that each licensee should be inspected at least every 60 days. It would be difficult if not impossible to determine how often each licensee has been visited, since most of the inspectors' daily reports do not indicate the licensee inspected. In addition, often times beer and liquor license transfers are not discovered until renewal time, at the end of each fiscal year. During our discussion with board employees, in regard to this problem, we discovered Form 510, Inspection Report. This report, last revised in 1953, has not been used by the inspectors in recent years but with revision, could be extremely useful as a means of checking the frequency of licensee inspections, followup of deficiencies, checking the accuracy of inspectors' daily reports and travel claims, disclosing ownership changes, and checking on the activities of the inspectors. A copy of this completed report could be placed in the licensee file, thereby providing an accumulative history of the frequency of inspections, violations, follow-ups to violations and any other matter. The inspector, by retaining a copy of this report could plan his itinerary and would also be alerted as to continuing violations by a licensee on subsequent visits.

Inspector Attendance Records

In reviewing the March 1972 daily reports of one of the inspectors, we noted that reports for four consecutive days were missing. A check of the annual leave records showed that this inspector was not on vacation.

We then checked travel claims which indicated that he was on vacation those four days. Thus, the inspectors' leave records were never charged for his vacation time. A further check of this inspector's daily reports indicated that he took February 21 and 22 of 1972 as holidays while only the 21st was an authorized holiday. His leave record also indicated that he was on vacation for one day in August while his daily report and travel claims for that day indicated he was working. Our review of annual leave records also disclosed other discrepancies. During February, 1972 one inspector took seven days annual leave as indicated on his daily reports and his travel claims. However, his leave records did not indicate that any vacation had been taken.

Another common practice among the inspectors was that of taking compensatory time, or makeup days, off. During the past fiscal year, one of the inspectors took a total of 23 makeup days off. Prior to his vacation he used seven of these days in a row, and in another instance five days in a row. In total, five of the nine inspectors took makeup days off as a common practice. Makeup days off generally result when an inspector works a weekend and then takes a makeup day off at his convenience. There is no control over when the inspectors may take such days off and no means exists to determine that the days off have actually been earned.

There is poor coordination between the payroll department and the inspectors as to leave records. To correct this situation, inspectors should be required to complete monthly attendance reports. These reports should then be cross-checked against daily reports and travel claims.

Resignation and Retirement

During the time of our examination, one inspector submitted his resignation effective August 30, 1972. On September 6, we inquired if the inspector had turned in his state car and his inspectors supplies. No one at the office could tell us whether he had. After several phone calls, it was determined the car should be left at a state motor pool point. A board employee then contacted the inspector, who said he had parked the car in front of his residence not knowing what its proper disposition was. The employee then told him to turn it in at the motor pool. This particular event further indicates the lack of control exercised over the inspectors.

Montana Liquor Control Board bulletin 1-66, dated March 21, 1966, states that the mandatory retirement age of any board employee is 70. During our review of payroll records, we noted that one of the inspectors has passed the mandatory retirement age and is still a board employee. We feel that there should be no exceptions to the mandatory retirement age rule and that this inspector should be retired.

Duplication of Effort

As mentioned in the report of the legislative auditor, many of the duties performed by the inspectors overlap or duplicate law enforcement and health authorities' duties. During our review of the inspectors' daily reports, we noted one instance where an inspector spent an entire day to post a closure notice and pick up a suspended license. Ten days later, he once again spent an entire day to remove this notice and return the license. On each report he showed round trip mileage of 131 miles

and it took him 8 hours to post the closure notice and 9 hours to remove it. In another instance we noted an inspector spent three days observing the sale of beer under a special permit at a fair. Another inspector spent Sunday morning checking for open bars at the same time the local sheriff was performing the same function. Work of this nature is routine to law enforcement agencies. As a part of their inspection, inspectors inspect the restroom facilities of a licensee as well as other sanitary conditions. This is a duplication of inspections performed by the State Board of Health and county health officials.

Inspectors Training

Prior to April of 1972 when the inspectors came to Helena to pick up their new state cars, most of the inspectors had never met their counterparts nor had they ever visited the central office. None of the inspectors have been formally trained for their jobs. They have no standardized checklist of what to look for or what procedures to follow when inspecting a licensee. In order to standardize the inspectors procedures formal training sessions with all inspectors present should be held periodically. Such sessions should deal with subjects such as liquor laws, liquor regulations, report writing, inspection procedures and administrative procedures. Inspectors should be trained to look for certain deficiencies when making their inspections. At this time the inspectors could also discuss their problems, findings, any new legislation or board licensing activities. Some field supervision of inspectors' activities would also seem appropriate.

Documentation of Complaints and Violations

While reviewing correspondence files at the central warehouse we noted several letters dealing with alleged violations of liquor laws. In some instances, we were unable to find copies of these letters in the applicable licensee file nor was there any indication that any of the letters had been properly followed through. In order to be certain that all licensee violations of regulations are properly noted in licensee files a copy of each letter, complaint or other correspondence should be placed in the applicable file. In addition, any followup to such correspondence should be noted accordingly. Further, any complaints or inquiries handled by telephone should be noted for the files.

Recommendations of Legislative Auditors

The legislative auditors report made no positive recommendations in the area of inspectors since at the time of their report the executive reorganization was under study and because of the nature of the inspectors' work. Thus, we have no comments relative to conforming with legislative audit recommendations.

SUMMARY

In the preceding discussion we have noted that:

1. Some inspectors spend a substantial portion of their time at their headquarters without accounting for their activities.
2. Daily reports of activities are not being properly completed and one inspector does not even file daily reports.
3. No records of routine licensee inspections are maintained at the central office.
4. Monthly attendance reports are not being submitted by inspectors resulting in inaccurate and inadequate leave records.
5. Resignations and retirements are not properly handled.
6. Inspectors' activities overlap and duplicate those of law enforcement and health officials.
7. Inspectors receive no formal training nor are they furnished with standard work procedures.
8. Documentation relating to complaints and violations concerning licensees is lacking.

From the foregoing we can only conclude that the inspection function as it exists is a waste of effort and money. The only evidence that the inspectors perform any substantial duties are the inspection reports filed on applications for new licenses and requests for license transfers and those inspections certainly do not require nine fulltime men. We believe the major burden of enforcing liquor laws and regulations is being carried by local law enforcement agencies and health authorities rather than the board's inspectors. We are convinced that the duties now being performed by the inspectors could be performed with substantially

less people at substantially less cost possibly by persons retained in individual localities on a parttime basis.

Once more, we believe that political patronage is at least partially responsible for the inefficiencies noted in the enforcement area. We can see no other reason to fill positions which are not required.

RECOMMENDATION

We recommend that the board make a thorough evaluation of the inspection function and either discontinue the program or reorganize it into a more efficient and realistic structure.

LICENSING

State law empowers the board to control the issuance and transfer of beer and liquor licenses in the state. The board exercises this authority within guidelines established by law and by board regulation.

Quota System

The maximum number of retail beer and liquor licenses available for issuance within a given locality is set by statute based on population and geographic considerations. The board is required to use the latest official United States census population data in establishing the availability of licenses. This quota system has created a situation whereby an individual who is fortunate enough to be issued a retail beer and liquor license which because of poulation growth,has become available in a locality where licenses issued prior to the census were equal to the quota, may pick up a substantial profit through no efforts of his own. The demand for retail beer and liquor licenses in most localities is simply greater than the supply resulting in a marketability for licenses which would not exist were the quota system not in effect.

Three new retail beer and liquor licenses became available in one Montana city as a result of the 1970 census. Applications for these licenses numbered considerably more than the licenses available. In reviewing the licensee and application files we were unable to determine why one applicant received a license while another did not. We questioned the board as to their basis for determining which applicants would receive the licenses and received no definitive answer other than that

the proposed or existing premises where the license would be used was a consideration as was the board's understanding of what type of a business operation would result.

RECOMMENDATION

We recommend that the board establish objective criteria by which to evaluate applications for licenses and document its reasons for approving one application over another.

Licenses Approved but not Issued

We noted instances where licenses had been approved for issuance but that the licenses had not been issued, usually because the premises in which the licenses were to be used were still under construction. One license approval had been held up because the proposed licensee had been inducted into the armed services. When these delays in the issuance of licenses occur and carry over from one fiscal year to another, the board does not receive a renewal fee for the subsequent year. We found no laws or regulations stating how long an approved but unissued license might be held.

RECOMMENDATION

We recommend that the board adopt appropriate regulations as to how long an approved but unissued license may be held.

Number of Licenses Held by One Person

Section 4-411, RCM 1947, states that "No person shall be granted more than one license in any year." Section 3.31(d) of the rules and regulations of the board states that "any person owning stock in a

corporation which holds a retail liquor license shall not be qualified to have an interest, either as owner, partner or stockholder, in another retail liquor license."

During the course of our examination a controversy arose where a man and his wife each held a retail liquor license and had, as a couple, acquired the stock of a corporation which owned a third liquor license. In reviewing the board's procedures we found that no systematic means exists by which to detect such instances although the licensee files contain adequate information to implement a system.

RECOMMENDATION

We recommend that the board implement a system which will cross-check licensee files to determine compliance with Section 4-411, RCM 1947, and the board's rule 3.31(d).

FIXED ASSETS

The following deficiencies in accounting for and control over fixed assets were noted by the legislative auditors.

1. Manually maintained fixed asset records should be converted to automated records because of volume.
2. Property records were not always in agreement with physical i ventories.
3. Assets in some cases were inadequately identified in the property records.
4. Identification numbers were not assigned to all assets and some assets were not tagged.
5. Useful lives of assets were generally greater than the lives assigned for depreciation purposes.
6. Salvage values were not considered in computing depreciation.
7. General ledger accounts did not disclose original cost and accumulated depreciation separately.
8. Accounting for dispositions of fixed assets was improper in that gain or loss was not determined and general ledger accounts were not received of the book value of items disposed of.

We found that these deficiencies still exist and that the recommendations made by the legislative auditors have not been implemented. The fixed asset records of the board are inadequate and the system of maintaining those records is outdated.

RECOMMENDATION

We quote the following recommendations from the legislative audit report and recommend that the board:

1. "Convert its fixed asset records to a fully automated system."
2. "Make a complete physical inventory of all board fixed assets and assign identification numbers and tags to those assets which do not already have them"
3. "Adjust the accounting records to agree with the physical inventory documenting and obtaining proper approvals of any writeoffs required."
4. "Adjust the control accounts to reflect the proper cost, accumulated depreciation, and book value of all fixed assets."
5. "Convert detail depreciation calculations from the present manual operation to a data processing application."
6. "Review the period of time over which assets are depreciated and assign a more realistic life to fixed assets."
7. "Consider salvage value in determining the depreciable cost of fixed assets."
8. "Expand its general ledger accounts to include accounts for the gross value of the assets and accumulated depreciation accounts."
9. "Revise its accounting procedures for recording the disposition of fixed assets to reduce the accounts by the book value of the asset and recognize gain or loss realized on the assets' disposition."

NEED FOR NEW WAREHOUSE

More than 600,000 cases of liquor were received into the board's warehouse and more than 600,000 cases were shipped out of the warehouse during the past fiscal year. This entire volume was handled manually, without the mechanical means one would expect in an operation of the size and magnitude of the liquor enterprise. Carloads of liquor received are not pall_rized and unloaded by forklift but are unloaded case-by-case because the existing warehouse was not designed to facilitate mechanical handling. The major deterrents to mechanical handling are:

1. Storage space is on three levels.
2. The sprinkler system is hung too low from the ceilings.
3. Inconvenient support pillar locations.

Money to construct a new warehouse was appropriated by the legislature several years ago and preliminary steps were taken including acqusition of the land. The ceiling interest rate on state bonded indebtedness at the time, however, prevented sale of the necessary bonds and the appropriation reverted. We believe the acquisition of new warehouse facilities would result in substantial efficiencies and cost savings, particularly in manpower.

RECOMMENDATION

We recommend that the board seek legislative authorization to construct a new warehouse facility.

ACCOUNTING, BUDGETING AND APPROPRIATIONS

Appropriation for Liquor Purchases

The 1971-73 biennium was the first biennium in which liquor purchases and inbound freight charges were limited by legislative appropriation. Liquor purchases and freight for the 1971-72 fiscal year exceeded the amount of the legislative appropriation by more than $1 million. Toward the end of the fiscal year, the agency requested and received a budget amendment for $720,500 which still proved to be inadequate. We see no reason for the amount of liquor purchases to be subject to appropriation limits when such amount is directly dependent on the volume of liquor business transacted. We were informed that applicable statutes require appropriation of funds. We believe that the efforts of complying with the statutory requirement in this instance serve no useful purpose.

RECOMMENDATION

We recommend that the Budget Bureau request appropriate statutory changes to remove the requirement that liquor purchases and inbound freight charges be subject to legislative appropriation.

Accrual vs. Encumbrance

The statewide accounting system premitted, for the first time, accrual of expenditures at June 30, 1972 as is dictated by generally accepted accounting principles for governmental units. We found, however, that the accruals recorded by the agency included $35,405 of accrued expenditures which should properly have been classified as encumbrances against appropriations and should not have been reflected as expenditures in fiscal year 1971-72. The distinguishing characteristic

of an accrued expenditure is that the expenditure must benefit the accounting period in which it is accrued. The improper accruals were for goods and services which were not received until after June 30, 1972 and could not possibly have benefited the fiscal year then ended. These accruals should have been reflected as encumbrances. We learned that the statewide accounting system did not provide for carrying encumbrances into the subsequent fiscal year and that in order to charge such commitments against appropriations for the 1971-72 year, it was necessary to record them as accruals.

We believe that in order for the statewide accounting system to operate in accordance with generally accepted accounting principles it is necessary that the system permit the recording of encumbrances as well as accruals at the end of the fiscal year.

RECOMMENDATION

We recommend that the Department of Administration consider revising the statewide accounting system to permit compliance with generally accepted accounting principles for governmental units as they relate to year-end encumbrances and accruals.

Reconciliation with Department of Administration Reports

As noted in the legislative audit report to the board, the board has established no formal procedures for reconciling revenues and expenditures as recorded in the board's records to the board's transactions as reported by the Department of Administration. To this end, two recommendations were made.

1. That the board reconcile transactions as shown on the board's records to the transactions shown on the State Controller's

reports on monthly basis and retain these reconciliations as part of the regular accounting records.

2. That the board utilize the State Controller's reports of unexpended balances in each appropriation to prevent expenditures from exceeding the board's appropriations.

Our examination disclosed that the first recommendation noted above has not been implemented. During our engagement, it was necessary to reconcile the accounting records to the Controller's reports for the entire year under review. This proved to be a tedious and time consuming task, and would have been made much easier had monthly reconciliations been made as previously recommended. The second recommendation has been implemented.

RECOMMENDATION

We recommend the board reconcile transactions as shown on the board's records to the transactions shown on the Department of Administration reports on a monthly basis and retain these reconciliations as part of the regular accounting records.

Accounting for Revenue Deposited to General Fund

We found the accounting for funds received by the agency for deposit direct to the general fund to be basically in memorandum form and not incorporated into the formal system of accounts. Beer tax revenues and license renewal fees are examples. We believe that the accounting for all funds received should be a part of the formal, double-entry set of accounts regardless of the ultimate disposition of the funds. In this manner, accountability for the funds is formally established upon their

receipt and the formal accounting records disclose all sources and dispositions of funds.

RECOMMENDATION

We recommend that all funds received by the liquor division be recorded in the formal, double-entry books of account regardless of their ultimate disposition.

Control Over License Renewal Fees

The agency does not establish a control total and maintain appropriate subsidiary detail records for license renewal fees. Copies of renewal notices are the only source from which to determine delinquencies. We believe a system similar to the accounts receivable systems employed in private enterprise would improve control and provide a ready means of determining delinquencies.

RECOMMENDATION

We recommend that a formalized system of control and follow-up be implemented for license renewal fees.

Warehouse Inventory Cutoff

During our review, we noted that no systematic means existed by which the chief accountant may establish the proper monthly and year-end cutoffs of liquor purchases and freight-in costs. Completed receiving reports might be found at four different locations within the warehouse and no numerical control is maintained over the receiving reports. To alleviate this situation, we feel that there must be a revision made in the system of processing receiving reports which provides a log which will immediately identify shipments received but not yet paid

for thereby permitting a timely cutoff. This change has been discussed with proper department heads and is currently being implemented by board personnel.

RECOMMENDATION

We recommend the board revise the system of processing warehouse receiving reports to provide a log which will immediately identify shipments received but not yet paid for, thereby permitting a timely and accurate inventory cutoff.

Warehouse Inventory Variations

The warehouse inventory value presently includes estimated inbound freight charges. For the fiscal year ended June 30, 1972 it was necessary to adjust the warehouse inventory control account upward by approximately $160,000 to reflect the computed warehouse inventory valuation. We found that this adjustment was primarily attributable to the fact that the estimated inbound freight charges added to the actual purchase cost of the merchandise exceeded the actual inbound freight charges. The board, with the retention of a transportation consultant, was able to accomplish substantial reductions in freight costs primarily through improved routing and concerted effort in pooling shipments to achieve minimum rates.

We believe the general ledger control account should reflect actual inventory cost at all times. To achieve this, it is necessary that estimated inbound freight costs no longer be included in computed inventory valuation and that the control account be adjusted monthly to reflect actual value and isolate variations. We have discussed this matter with the agency staff and required procedural changes are being implemented.

RECOMMENDATION

We recommend that inventory values reflect only the purchase cost of merchandise and that the general ledger control account be adjusted to the physical inventory value on a monthly basis.

CASH HANDLING PROCEDURES

State Liquor Stores

State liquor stores have been provided change funds as was recommended by the legislative auditors. We found, however, that written procedures for handling cash when such funds are provided have not been provided to the stores and various practices exist among the stores. We found, for instance, that cash overages generally are not deposited to state bank accounts but are held to offset future shortages. We believe store vendors should be instructed to deposit all cash except the amount of their change funds regardless of the over or short position.

RECOMMENDATION

We recommend that the board establish written procedures for the handling of cash in state stores and that those procedures require deposit or remittance of all cash except the amount of the change fund.

License Application Fees

When license applications are received and a question exists as to its proper disposition, the application and the accompanying remittance are placed in the office safe. When applications are accompanied by personal checks, they are likewise placed in the office safe and the personal checks are returned to the applicants since the board has a

policy of not accepting personal checks. We believe that all cash should be deposited immediately upon receipt and warrants issued when refunds are required. We believe the board should also reconsider its policy of not accepting personal checks in that we cannot see any substantial risk of loss and control is weakened by the necessity of returning personal checks to applicants.

RECOMMENDATION

We recommend that:

1. All cash be deposited immediately upon receipt and refunded by warrant when required.
2. The board reconsider its policy of not accepting personal checks.

License Processing Fees

The board has instituted a charge for processing license applications as was recommended by the legislative auditors. The processing fees received are deposited to an uncleared collections account pending board action on the applications. Refunds of processing fees are permitted only if the application is withdrawn prior to incurring of publication costs. We believe that the processing fees should be transferred to the general fund as soon as the board has acted on the application. We found that processing fees for approved but unissued licenses were being held in the uncleared collections account until the actual issuance of the license which is sometimes delayed for a substantial length of time.

RECOMMENDATION

We recommend that processing fees be transferred to the general fund immediately following board approval or rejection of the license application.

COMPLIANCE WITH LEGISLATIVE AUDIT RECOMMENDATIONS

Numerous legislative audit recommendations have been discussed elsewhere in this report. This section will deal only with recommendations not previously discussed which we believe require brief coverage. A tabulation follows the financial statements at the back of the report which indicates whether or not each legislative audit recommendation was implem ed.

15. "Discontinue stocking ethyl alcohol and issue usage permits or determine if sale through stores is warranted."

    This was not implemented but should be done.

16. "Establish written policy and procedures to govern sale of ethyl alcohol."

    This was not implemented but should be done.

17. "Define intent and meaning of sacramental wines."

    Attempts were unsuccessful - no definition available.

18. "Require purchases of sacramental wines to be made by permits."

    Clerics continue to receive wines commonly purchased by the general public which wines are not subjected to any state mark-up or tax. We believe this is unfair to the public and implementation of this recommendation along with required board approval of sacramental wine orders to be shipped to permit holders should eliminate the abuse.

19. "Require carriers to provide reports of all liquor transported into state."

States from which liquor is shipped into Montana furnish the board with shipment information including the name of the receiver. This should serve the same function as would the reports furnished by carriers.

20. "Establish time limit for holding special order deposits and refund deposits for orders not filled within time limit."

The board has established a 90 day time limit for holding special order deposits. However, we found that the time limit was not always adhered to. We also found that deposits in the minimum amount of $20.00 or 50% of the selling price of the item was not adhered to. The board should either adhere to its policy or change the policy to fit conditions.

33. "Establish written procedures for use of applications for credit."

This recommendation has not been implemented but we believe it should be.

35. "Establish numerical control accountability over credit application documents."

This recommendation has not been implemented. We believe that other controls including the necessity of two signatures on applications for credit are adequate and that establishing numerical control would accomplish little.

58. "Arrange to have liquor samples tested by a qualified chemical analysis laboratory."

The board has not instituted a program of having liquor samples chemically analyzed. It is felt that federal controls over the liquor industry are sufficient.

40. "Obtain necessary authority and examine records and premises of domestic liquor production businesses."

A bill introduced in the 1971 legislative session which would have give the board the authority to examine records and premises of domestic liquor business was killed in committee. We feel such legislation should be sought again.

51. "Furnish a cash register to each state liquor store."

If the use of daily sales reports in stores is discontinued, the use of sales tickets for sales to persons other than retail liquor licensees could also be discontinued if each store were provided with a cash register. Cash registers serve as a control factor for cash and we believe each state liquor store should have one.

53. "Discontinue policy of requiring state stores to close for inventory purposes."

State liquor stores are now closing for 1/2 day per month for inventory purposes. We believe this is an adequate length of time to complete the inventory and saw no major problems in this regard.

61. "Establish written procedures and precautions for store personnel with respect to holdup and robbery prevention."

We observed one store vendor taking cash home with him after closing

because there was no safekeeping place in the store and no night depository facilities available in town. We believe the board should establish written holdup and robbery prevention procedures and provide a safekeeping device for each store which does not have access to night depository facilities.

64. "Evaluate feasibility of self-insurance for merchandise."

The legislative auditors determined that the premiums paid for insurance coverage on merchandise had exceeded recoveries for losses by more than $17,000 in a ten year period. Although self-insurance would have saved the board money over that time period, one fire loss of major proportions would have paid for the premiums for the entire period. We do not feel that self-insurance of merchandise inventory is feasible.

67. Request insurance coverage of board furniture and equipment under the state's blanket policy."

We found no requests for insurance coverage of furniture and equipment under the state's blanket policy. We feel this possibility should be examined for the purpose of achieving lower premiums.

71. "Keep cash in safe at the end of the day and keep safe locked at all times."

We found that cash is being kept in the central office safe but that the safe is not locked during the day and access to the safe is not limited to specified personnel.

79. "Maintain records of all sales of board property."

80. "Deposit proceeds from sale of liquor boxes in the state treasury."

These two recommendations were directed at the practice of selling empty liquor cases in state liquor stores. The receipts from the sale of these boxes are not reported to the central office but are being used by vendors to offset inventory shortages, etc. We believe that cash control is weakened when any source of cash is excepted from cash accountability requirements. The sale of boxes in the stores should be covered by a policy requiring deposit of all cash received to the state treasury.

89. "Document basis for renegotiated leases."

90. "Document basis for rental rates and reasons for store relocations."

We found that in general, the board is complying with these recommendations except that documentation remains weak and should be improved.

104. "Centralize filing of payroll records."

We found that employee leave records were not centralized but were maintained at three different locations in the central office. We see no reason for this and believe that all leave records should be kept by the payroll clerk.

109. "Establish uniform janitorial fee structure."

The board has not established a uniform janitorial fee structure. Most janitorial services are performed by store employees and rates varied between stores of the same approximate size. We feel these rates should be determined on an objective basis which would require a uniform policy.

114. "Make travel expense and compensation fee payments for board business expense only."

We found, as did the legislative auditors, that board members living within 1½ to 2 hours driving time of Helena generally come to Helena on the day before board meetings and receive compensation fees for that day. We feel this is a matter of personal convenience and that the board members should not receive compensation fees for 1½ to 2 hours driving time.

118. "Amend statutes to require direct tax payments by out-of-state breweries."

A bill was introduced in the 1971 legislative session which would have required out-of-state breweries to remit the beer tax on their shipments into Montana direct to the board. This bill, if it had not been killed in committee, would have simplified beer tax collections by sharply reducing the number of reports received. Also, control over beer tax collections would have been improved. We believe the board should once more seek legislation requiring beer tax remittance by out-of-state breweries.

126. "Establish systematic method of determining profits and transfer to general fund on regular basis."

The legislative auditors determined that liquor profits were not being transferred to the general fund on a timely and systematic basis. The e: istence of the State Board of Investments which invests -'l state funds regardless of their nature, eliminates some of the ne for transfers to the general fund to be made on a timely basis. However, we believe that the board should exercise care to be certain that only minimum cash balances in the liquor revolving fund be carried over from one fiscal year to another in order that general fund revenues for the fiscal yea- will be properly accounted for.

CONCLUSION

It is not our intent that any reader of this report should be left with the impression that the operation of the state liquor monopoly is without favorable attributes. Our intent in discussing only those areas which, in our opinion, might be improved is to promote the adopting of changes which would result in greater revenue for state government without increasing the burden on state residents.

We do not wish to imply that the inefficiencies noted are the responsibility of either political party or any one administration of state government. We believe that the poor business practices are primarily the result of too much political influence which has built up over the years and that the time is now for both political parties to agree to remove state government's only business enterprise from politics.

We thank the board, the administrator and staff for their cooperation and assistance throughout the course of our engagement.

Respectfully submitted,

Artz, Clark & Stevens

ARTZ, CLARK & STEVENS
Certified Public Accountants

ACS:pls

STATE OF MONTANA
DEPARTMENT OF REVENUE
LIQUOR DIVISION
ALL FUNDS
BALANCE SHEET
June 30, 1972

EXHIBIT A

Assets	Earmarked Revenue Fund	Revolving Fund
Cash:		
Imprest Funds	$ --	$ 5,616
Change Funds	--	17,925
In State Treasury	--	2,098,156
In Transit to State Treasury	--	592,990
Receivable from Revolving Fund (Note 1)	131,796	--
Accounts and Claims Receivable	--	23,712
Prepaid Expenses	--	38,871
Merchandise Inventory: (Note 2)		
Stores	--	2,540,635
Warehouse	--	2,061,679
Fixed Assets (net): (Note 3)		
Land and Building	--	73,424
Machinery and Appliances	--	8,435
Furniture and Fixtures	--	5,603
Total Assets	$ 131,796	$7,467,046
Liabilities and Fund Balance		
Accounts Payable (Note 4)	$ 62,225	$1,126,871
Due Earmarked Revenue Fund (Note 1)	--	131,796
Excise Tax Payable to State General Fund	--	399,337
County License Tax Payable to Local Government	--	282,632
State Treasurer - Earmarked Revenue Fund (Note 1)	69,571	--
Fund Balance - Exhibit B	--	5,526,410
Total Liabilities and Fund Balance	$ 131,796	$7,467,046

The accompanying notes are an integral part of the financial statements

STATE OF MONTANA
DEPARTMENT OF REVENUE
LIQUOR DIVISION
ALL FUNDS
STATEMENT OF CHANGES IN FUND BALANCE

EXHIBIT B

Fiscal Year Ended June 30, 1972

	General Fund	Earmarked Revenue Fund	Revolving Fund
Fund Balance July 1, 1971	$ --	$ 313,448	$ 4,605,960
Additions:			
Revenue - Exhibit C	2,674,696	--	15,686,622
Transfer from Revolving Fund	--	2,700,000	--
Receivable from Revolving Fund (Note 1)	--	131,796	--
Fixed Asset Purchases Made from Earmarked Revenue Fund Capitalized in Revolving Fund	--	--	11,890
Cancellation of Stale Dated Warrants	--	139	43
Total Balances and Additions	$ 2,674,696	$ 3,145,383	$20,304,515
Deductions:			
Distributions to:			
Earmarked Revenue Fund for Support of Liquor Operations	$ --	$ --	$ 2,700,000
State General Fund	2,674,696	--	10,711,922
Local Government	--	--	1,179,929
Appropriation Expenditures-Exhibit D	--	3,145,383	--
Due Earmarked Revenue Fund (Note 1)	--	--	131,796
Depreciation on Fixed Assets	--	--	16,866
Merchandise Inventory Losses Through Breakage, Shortage, Robbery and Pilferage	--	--	6,560
Decrease in Prepaid Expenses from Prior Year	--	--	5,436
Adjustment of Prior Year's Net Income (Note 5)	--	--	25,596
Total Deductions	$ 2,674,696	$ 3,145,383	$14,778,105
Fund Balance June 30, 1972	$ --	$ --	$ 5,526,410

The accompanying notes are an integral part of the financial statements

STATE OF MONTANA
DEPARTMENT OF REVENUE
LIQUOR DIVISION
ALL FUNDS
STATEMENT OF REVENUE
Fiscal Year Ended June 30, 1972

EXHIBIT C

	General Fund	Revolving Fund
Liquor Profit:		
Liquor Sales	$ --	$29,497,440
Less Cost of Liquor Sold	--	19,790,573
Gross Profit on Liquor Sales	--	9,706,867
State Excise Tax on Liquor Sold	--	4,719,763
County License Tax on Liquor Sold	--	1,179,929
Liquor License Fees	437,490	26,129
Beer License Fees	439,800	16,030
Wholesale Beer Dealer Taxes	1,797,406	--
Other Income	--	37,904
Total	$ 2,674,696	$15,686,622

The accompanying notes are an integral part of the financial statements

STATE OF MONTANA
DEPARTMENT OF REVENUE
LIQUOR DIVISION
EARMARKED REVENUE FUND
STATEMENT OF EXPENDITURES COMPARED WITH APPROPRIATIONS
Fiscal Year Ended June 30, 1972

EXHIBIT D

	Resale Purchases	Warehouse Operations	State Liquor Stores	Regulating	General Administration	Total
Prior Year Encumbrances	$ --	$ 183	$ 2,100	$ 375	$ 931	$ 3,589
1971-72 Appropriations	8,662	223,130	2,625,493	169,621	382,737	3,409,643
Total Available	8,662	223,313	2,627,593	169,996	383,668	3,413,232
Expenditures-Exhibit E	1,399	218,312	2,468,455	135,686	321,531	3,145,383
Reversions	$ 7,263	$ 5,001	$ 159,138	$ 34,310	$ 62,137	$ 267,849

The accompanying notes are an integral part of the financial statements

STATE OF MONTANA
DEPARTMENT OF REVENUE
LIQUOR DIVISION
EARMARKED REVENUE FUND
STATEMENT OF EXPENDITURES
Fiscal Year Ended June 30, 1972

EXHIBIT E

Personal Services:			
Salaries and Commissions:			
Administration	$ 152,054		
Warehouse, Watchmen & Maintenance	178,631		
Inspection	65,629		
Store Auditors	21,780		
Liquor Stores	1,586,185	$2,004,279	
Board Members' Compensation		4,126	
Employee Benefits		248,884	
Total Personal Services			$2,257,289
Operating Expense:			
Professional Fees		$ 30,385	
Inter-Agency Charges for Services		43,625	
Janitorial Services for Stores		13,172	
Armored Car Services		9,750	
Store Rentals		195,557	
Machine Rentals		41,574	
General Supplies and Expense		76,650	
Postage		15,747	
Telephone and Telegraph		15,163	
Travel		38,696	
Utilities		47,505	
Repairs		13,294	
Outbound Freight on Merchandise		332,175	
Federal Licenses		309	
Insurance		2,602	
Total Operating Expense			876,204
Equipment Purchases			11,890
Total Expenditures			$3,145,383

The accompanying notes are an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. Statute requires that expenditures authorized by legislative appropriations from the earmarked revenue fund for support of Liquor Division operations be periodically funded by transfers of cash from the Liquor Division revolving account to its earmarked revenue account. At June 30, 1972 the earmarked revenue account had been overdrawn in the amount of $69,571 due to insufficient cash transfers from the revolving account. In addition, accrued expenditures totaled $62,225. The $131,976 total of the overdraft and accrued expenditures is reflected as an earmarked revenue fund receivable from the revolving fund and as a revolving fund obligation to the earmarked revenue fund.

2. Merchandise inventories are valued at cost plus estimated inbound freight costs on the first-in, first-out basis. Total inventory value is overstated in an immaterial amount as a result of including estimated inbound freight costs in excess of actual freight charges. Recommended changes in this regard are included in the commentary portion of this report.

3. Fixed asset accounts are improperly presented in that original cost and accumulated depreciation are not separately stated nor are separate accounts maintained in the accounting records. Recommended changes in fixed asset accounting are included in the commentary portion of this report.

4. Accounts payable from the earmarked revenue fund include commitments of $35,405 for which related goods and services had not yet been received. These commitments should properly have been presented as encumbrances of appropriations rather than as accounts payable.

5. Adjustments to cost of sales for the prior year were necessitated by the fact that accounts payable for merchandise purchases were understated by $53,107 and store merchandise inventories were understated by $27,511 at June 30, 1971. The result of these adjustments was to increase the gross profit on liquor sales for the year ended June 30, 1972 by $25,596 and reduce the revolving fund balance by a like amount.

SUMMARY OF COMPLIANCE WITH LEGISLATIVE AUDIT RECOMMENDATIONS
APPENDIX 1

	LEGISLATIVE AUDIT RECOMMENDATION	Implemented	Not Implemented
1.	Adopt provisions of "Robert's Rules of Order" for board minutes.		
2.	Have board minutes recorded by secretary or mechanical means.	X	
3.	Have assistant administrator attend all sessions of board meetings.	X	
4.	Record accurate hours of convening and adjournment of board meetings in minutes.	X	
5.	Record results of board members trips in board minutes.	X	
6.	Have all purchase orders signed by administrator or assistant administrator.	X	
7.	Make all changes to purchase orders prior to administrators' approval.	X	
8.	Evaluate merchandise purchase needs on continuing basis.		X
9.	Consider merchandise in stores in determining quantity of merchandise purchases.		X
10.	Base merchandise purchases on needs as opposed to distiller representatives' attendance at board meetings.	X	
11.	Inform distiller representatives and board employees that representatives' contracts at the board are limited to the board members and administrator.	X	
12.	Eliminate purchase of merchandise for which many months' supply is already in inventory.	X	
13.	Evaluate merit of implementing "IMPACT" program.	X	
14.	Consider having store vendors order merchandise upon implementation of "IMPACT" program.	X	
15.	Discontinue stock ethyl alcohol and issue usage permits or determine if sale through stores is warranted.		X
16.	Establish written policy and procedures to govern sale of ethyl alcohol.		X

LEGISLATIVE AUDIT RECOMMENDATION (CONTINUED)	Implemented	Not Implemented
17. Define intent and meaning of "sacramental wines."		X
18. Require purchases of sacramental wines to be made by permits.		X
19. Require carriers to provide reports of all liquor transported into state.		X
20. Establish time limit for holding special order deposits and refund deposits for orders not filled within time limit.		X
21. Request legislation to abolish indebtedness limitation.	X	
22. Establish sales quota for each type of liquor listed.	X	
23. Determine presently listed liquors not meeting sales quotas.		X
24. Delist liquors not meeting sales quotas.		X
25. Establish written criteria for evaluating liquors proposed for listing in future.		X
26. Adopt formal system for evaluating proposed listings including documentation.		X
27. Document reasons for listing or not listing proposed liquor.		X
28. Test salability of new listings on trial basis in stores.	X	
29. Establish criteria for delisting and authorize staff to evaluate and delist based upon established criteria.		X
30. Determine inventory stock levels needed to maintain adequate supply.	X	
31. Adjust purchases to bring inventories down to established stock levels.	X	
32. Reprogram computer to determine when more purchases need be made.	X	
33. Establish written procedures for use of applications for credit.		X

LEGISLATIVE AUDIT RECOMMENDATION (CONTINUED)	Implemented	Not Implemented
34. Limit use of credit applications to merchandise actually damaged, defective, or otherwise truly unsalable.	X	
35. Establish numerical control accountability over credit application documents.		X
36. Establish written procedures for handling and control of liquor samples.	X	
37. Establish and maintain formal written record as to receipt and disposition of liquor samples.	X	
38. Arrange to have liquor samples tested by a qualified chemical analysis laboratory.		X
39. Warehouse in the central warehouse all liquor to be sold through state liquor stores.	X	
40. Obtain necessary authority and examine records and premises of domestic liquor production businesses.		X
41. Inititate procedures to maintain records of traffic manager, data processing, and accounting in agreement.	X	
42. Request distillers from whom the board does not make purchases monthly to pay for credit invoices by check instead of credit memo.	X	
43. Retain copies of board prepared invoices in numerical file.	X	
44. Establish policy for delivery of defective merchandise to warehouse.	X	
45. Reconcile returned defective merchandise to credit applications.	X	
46. Notify distillers that defective merchandise will be retained for no longer than 45 days before being destroyed.	X	
47. Segregate duties of accounting for billing, and physical control of defective merchandise.	X	
48. Assign physical control of defective merchandise while stored in central warehouse to warehouse supervisor.		
49. Discontinue use of daily sales reports, spread sheets, and perpetual inventory records currently used in state liquor.		

LEGISLATIVE AUDIT RECOMMENDATION (CONTINUED)	Implemented	Not Implemented
50. Adopt retail inventory method of valuing merchandise in state stores and apply "forced sales" technique of determining sales.		X
51. Furnish a cash register to each state liquor store.		X
52. Consider establishing store hours more convenient to the buying public.	X	
53. Discontinue policy of requiring state stores to close for inventory purposes.		X
54. Include the number of cases and units handled as a major consideration when determining personnel requirements of state stores.		X
55. Enforce statutory requirements that board employees have no outside interest in undertakings dealing with liquor.	X	
56. Advise distillers of, and enforce, statutory provisions regarding promotion of liquor by distiller representatives outside of the board's central office.	X	
57. Direct store vendors and retail licensees to report to the board violations regarding liquor promotion.	X	
58. Direct store vendors to discontinue practice of making deliveries to tavern licensees.	X	
59. Enforce laws and rules prohibiting consumption of alcoholic beverages in state stores.	X	
60. Subscribe to armored car services where they are available.	X	
61. Establish written procedures and precautions for store personnel with respect to holdup and robbery prevention.		X
62. Require immediate remittance of store shortages and document justification for waivers.		X
63. Determine store overages and shortages by computer application.		X
64. Evaluate feasibility of self-insurance for merchandise.		X

LEGISLATIVE AUDIT RECOMMENDATION (CONTINUED)	Implemented	Not Implemented
65. Close out balance of insurance reserve account.	X	
66. Review insurance coverage on board property yearly.		X
67. Request insurance coverage of board furniture and equipment under the state's blanket policy.		X
68. List checks upon receipt and reconcile to deposit slips.	X	
69. Restrictively endorse checks and deposit daily.	X	
70. Segregate duties relating to cash.	X	
71. Keep cash in safe at the end of the day and keep safe locked at all times.		X
72. Compare store auditor's reports to central office records.		X
73. Keep petty cash funds separate from other cash.		X
74. Revise stores' operating manual to agree with the state controller's regulations.		X
75. Submit public utilities bills through the state controller's office for payment.	X	
76. Establish a change fund for each state store.	X	
77. Deposit stores' daily sales receipts intact and daily, when warranted.	X	
78. Discontinue the personal borrowing of store sales proceeds.	X	
79. Maintain records of all sales of board property.		X
80. Deposit proceeds from sale of liquor boxes in the state treasury.		X
81. Require vendors to deposit sale proceeds in the state treasurer's account.		X

LEGISLATIVE AUDIT RECOMMENDATION (CONTINUED)	Implemented	Not Implemented
82. Prohibit credit sales to employees.	X	
83. Revise procedures regarding refunds of sales proceeds.	X	
84. Revise stores' operating manual to provide for proper check handling procedures.		X
85. Establish firm policy over handling of Canadian monies.	X	
86. Establish an effective store audit function.		X
87. Centralize the store audit function in Helena.	X	
88. Require lease agreements on all state stores.	X	
89. Document basis for renegotiated leases.		X
90. Document basis for rental rates and reasons for store relocations.		X
91. Require that acceptable rental standards be used in determining rental rates.	X	
92. Adhere to provisions of lease agreements.	X	
93. Enforce lease agreement provisions.		X
94. Establish written uniform policies and criteria regarding the establishment and operation of state stores.		X
95. Reorganize into a more functional and realistic structure.		X
96. Clearly define duties and responsibilities of employees.		X
97. Establish written performance standards for employee duties.		X
98. Delegate responsibility of hiring and discharging employees to administrator.		X
99. Consider repealing statutory limitations over employees' salaries.		X

LEGISLATIVE AUDIT RECOMMENDATION (CONTINUED)	Implemented	Not Implemented
100. Re-evaluate policy requiring vendors to pay for merchandise shrinkage.		X
101. Standardize employee appointment and separation forms.	X	
102. Revise employee time reporting system.	X	
103. Revise employee sick leave, vacation, and overtime records.	X	
104. Centralize filing of payroll records.		X
105. Discontinue maintaining employee card file payment records.	X	
106. Utilize central payroll system.	X	
107. Limit board members' compensation to prescribed limits.	X	
108. Discontinue making severance payments.	X	
109. Establish uniform janitorial fee structure.		X
110. Limit Out-of-state travel expenses to amounts authorized by law.	X	
111. Transfer over-expenditure to proper source.	X	
112. Obtain refund of excessive travel charge and limit future payments.	X	
113. Make travel per diem payments only as authorized by law.	X	
114. Make travel expense and compensation fee payments for board business expense only.		X
115. Properly classify expense payments.	X	
116. Identify basis for travel expense payments.	X	
117. Require wholesale beer dealers' reports to be properly submitted.	X	
118. Amend statutes to require direct tax payments by out-of-state breweries.		

LEGISLATIVE AUDIT RECOMMENDATION (CONTINUED)	Implemented	Not Implemented
119. Audit beer wholesaler records pending necessary legislation is passed.	X	
120. Require processing fee for new applicants for beer and liquor licenses.	X	
121. Transfer approximately $90,000 contingent revolving account balance. to general fund.	X	
122. Establish clearing account with state treasurer for depository for beer and liquor license fees.	X	
123. Transfer fees for approved licenses directly to the general fund.	X	
124. Cancel and transfer to general fund the outstanding checks over one year old drawn on contingent revolving fund.	X	
125. Continue to cancel and transfer to general fund checks one year old and over.	X	
126. Establish systematic method of determining profits and transfer to general fund on regular basis.		X
127. Provide additional printout and reports of county license tax.	X	
128. Discontinue ledger of the county license tax.	X	
129. Convert fixed asset records to fully automated system.		X
130. Inventory, assign identification numbers to, and tag all fixed assets.		X
131. Adjust accounting records of fixed assets to agree with physical inventory.		X
132. Adjust control accounts to reflect proper cost, accumulated depreciation, and book value of all fixed assets.		X
133. Convert depreciation calculations from a manual to a data processing operation.		X
134. Assign more realistic depreciable life to fixed assets.		X

LEGISLATIVE AUDIT RECOMMENDATION (CONTINUED)	Implemented	Not Implemented
135. Consider salvage value in determining depreciable cost.		X
136. Establish minimum dollar value of assets to be capitalized.	X	
137. Capitalize costs involved in putting new fixtures or other capital items into operable condition.	X	
138. Capitalize all costs of significant improvements.	X	
139. Limit contract awards to amount appropriated by legislature.	X	
140. Expand general ledger fixed asset accounts to include accounts for cost of the asset and accumulated depreciation.		X
141. Reduce accounts by book value and recognize gain or loss on disposition of fixed assets.		X
142. Inquire of state controller as to proper procedures to follow when disposing of fixed assets.		X
143. Require employees to use board automobile in lieu of private auto for board business.	X	
144. Evaluate advantages of maintaining fleet operation of automobiles.	X	
145. Restructure program and accounting system to properly account for operating expenses.	X	
146. Show cost of sales expenditures separately in program classification reports.	X	
147. Reconcile transactions to state controller's reports on monthly basis.		X
148. Utilize state controller's reports to prevent expenditures from exceeding the board's appropriation.	X	
149. Eliminate maintenance of accounts payable subsidiary ledger.	X	
150. Eliminate card file of payments to merchandise suppliers.	X	

LEGISLATIVE AUDIT RECOMMENDATION (CONTINUED)

		Implemented	Not Implemented
151.	Require warrants in payment of store rentals be distributed by state auditor's office.		X
152.	Discontinue manually produced records that duplicate data processing records.	X	
153.	Consolidate rental fee claims.	X	
154.	Consolidate claims for each payee on daily basis.	X	
155.	Consolidate utility bill claims prior to submission for payment.		X
156.	State controller examine feasibility of consolidating claims among state agencies for services originating from common source.	(Compliance not determined)	
157.	Comply with State Department of Administration regarding procurement procedures.	X	
158.	Tighten control over postage and postage meter.		X
159.	Maintain most recent year's records in walk-in safe.	X	
160.	Retain all accounting records until audited.		X
161.	Establish general ledger prepaid expense accounts.	X	
162.	Expense supplies monthly and adjust to actual at year end.	X	
163.	Charge all theft and robbery losses directly to the loss account.	X	
164.	Transfer proceeds from cancelled license fee refund checks and warrants to the general fund.		X
165.	Define in writing agreement between the board and its legal counsel.	X	
166.	Prenumber identification cards and cash receipts forms.	X	

LEGISLATIVE AUDIT RECOMMENDATION (CONTINUED)	Implemented	Not Implemented
167. Revise cost of sales and year end inventory unit costs to actual price of purchases.		X
168. Account separately for purchases and freight-in charges.		X
169. Include all merchandise received in year end accounting reports.	X	